



# Israel Ministry of Foreign Affairs

PLAINTIFF'S  
EXHIBIT  
**632**

## International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements

05 Jun 2002

### International Financial Aid to the Palestinian Authority Redirected to Terrorist Elements

Israel Defense Forces/Military Intelligence

June 2002

#### Executive Summary

1. The international community has so far invested \$4.5 billion in the PA in order to establish infrastructures and an organized civil society. However, the European and international hopes were met with a reality of corruption in the PA and the allocation of funds for completely different objectives.
2. Since April 2001, the Arab states transferred directly to the PA \$45 million of aid per month, and the European Union transfers directly to the PA 10 million Euro (approx. \$9 million) of aid per month. Thus, the EU finances 10% of the PA budget.
3. Two thirds of the PA's monthly budget, which is \$90 million, are devoted according to PA declarations to the payment of salaries.

This section of the PA budget can also be used for accumulation of surplus funds and their diversion to other purposes, as proven from the wealth of information uncovered during IDF Operation Defensive Shield.

4. For paying the salaries of its employees, the PA is managing a double reporting system. The PA claims to the aid entities that it requires about \$60 million dollar a month. However, from the captured documents (most of which are from the end of 2001) it can be learned that the PA needs only 55%-65% of this sum. This, as a result of a number of modus operandi:

- a. From a document that summarizes the salary payments to PA security forces in the West Bank and from additional data, it can be learned that the PA registers salary expenses of approx. \$40 million, about half for security forces personnel. A low exchange rate during payment of salaries in shekels (3.7 shekels to the dollar, compared to the representative rate of 4.4 shekels to the dollar at the end of 2001), creates a surplus of \$7.7 million.
- b. The PA deducts 1.5-2% from the salaries of security forces personnel as Fatah membership fees. In addition, many hundreds of Fatah activists were placed on the PA salary payroll, and in this manner, hundreds of thousands of dollars were transferred to the Fatah each month. In practice, these activists, have been in operation for several years, and especially during the confrontation with Israel, in Fatah local branches in the West Bank and Gaza Strip.
- c. The implication is that the PA paid salaries to hundreds of Fatah personnel who engaged in terrorism. Amongst the salary earners in this status was the commander of the Al Aqsa Martyrs Brigades in Samaria (responsible for attacks in which 17 Israelis were killed), and the two murderers of the Israeli youth who was lured via the Internet to the Ramallah area where he was murdered.
- d. The moves to integrate activists in the PA salary list are directed and managed by Arafat, wearing his triple-hat as Chairman of the PA, the PLO and the Fatah. His handwriting is on many documents regarding this subject, and the employment of Fatah activists is authorized by his signature.
- e. A captured document file shows that there were check books of the

PA's salary account in the office of Marwan Barghouti, the head of Fatah's "Supreme Movement Committee" in the West Bank, and he and his aide-de-camp withdrew money in an authorized and systematic manner in order to finance Fatah branches in the West Bank.

5. Therefore, the PA financed dozens of Fatah branches in order to establish a broad infrastructure of field activists who in time became armed local militias. This was a calculated move, which took place many years before the confrontation with Israel.

Marwan Barghouti, who provided the checks, was head of the Fatah/Tanzim in the West Bank and directed the murderous attacks of the Al Aqsa Martyrs Brigades. He was arrested by Israel in April 2002.

6. Money allocations in dollars were later added to the budgetary aid to Fatah branches which were given by Arafat to Fatah activists involved in terror. The money was transferred through Fatah district branches. The 16 payment orders found add up to approx. \$100,000.

We estimate that Fatah elements are allocated \$5-\$10 million per month for its expenses in the confrontation against Israel. Some of this sum is in money and some in goods - fuel and arms.

7. The surpluses from the PA budgets and the external budget sources (for example, taxes on fuel and tobacco) enable the PA to maintain additional PLO and Fatah apparatuses that were not disbanded after the PA was established. PLO veterans employed in PLO representations and some of whom enjoy diplomatic immunity, intensively aid in arms procurement operations and smuggling to the West Bank and Gaza Strip.

8. Within the PA budget, activities take place that are typical of a "money laundry". The main source for paying PA salaries in 2001- 2002 is the international aid money. The methods described above "create" surpluses of \$9 million per month from this account. It can be stated that 14% of the international aid is channeled to other objectives than those originally intended. It is reasonable to assume that a significant part of the revenue accumulated from the exchange rate differences is not directed to humanitarian goals, and some of the money is transferred directly to the Fatah.

9. The documents described in this report clearly show the connection between the PA financing of the Fatah/Tanzim and the terrorist attacks against Israeli civilians and the suicide attacks carried out by these local militias inside Israel.

#### **International Financial Aid to the PA Redirected to Terrorist Elements International Aid for the Palestinian Authority**

1. When the Palestinian Authority (PA) was established in 1994, European and Arab states mobilized to aid it. The international community has so far invested \$4.5 billion in the PA in order to establish infrastructures and a civil society in the West Bank and Gaza. However, Arafat's organization, which was on the brink of bankruptcy following the Gulf War, failed to take advantage of the political and economic opportunity it was given. The European and international hopes were met with a reality of corruption in the PA and the allocation of funds for completely different objectives.

2. Since the end of 2000, the PA receives large scale international aid in order to finance its current budget. In this framework, since April 2001, the Arab states transferred directly to the PA \$45 million of aid per month (which was raised in April 2002 to \$55 million a month). The European Union transfers directly to the PA 10 million Euro (approx. \$9 million) of aid per month, financing 10% of the PA budget.

3. Two thirds of the PA's monthly budget, which is \$90 million, are devoted according to PA declarations to the payment of salaries. Thus, the salaries of PA personnel are financed mostly by international elements, including the European community. This section of the PA budget can also be used for accumulation of surplus funds and their diversion to other purposes, as proven from the wealth of information uncovered during IDF Operation Defensive Shield.

4. This report analyzes documents unveiled during IDF Operation Defensive Shield and the diversion of money for purposes different to those which they were originally designated. The analysis is based on conservative assessments regarding the diversion of funds, according to captured documents. Naturally, they reflect only part of the overall picture. The analysis is based on an exchange rate of 4.4 shekels per dollar which

was the representative rate in Israel in December 2001 (in April 2002, the representative rate was 4.8 shekels per dollar).

#### **The Administration of the PA Finances**

5. For years, the PA has conducted its financial affairs in a twisted manner that has aroused the anger of the international contributing elements, as well as criticism from within the PA areas. For instance, Abed al Juad Salah, a Fatah veteran in the West Bank, in a leaflet published in November 2001, criticizes the PA's 2001 budget, claiming that "the PA's most serious offence is the multitude of monetary centers, so that the legislative council does not know how much money enters these centers and how it is used at this moment, there is still no internal financial supervision apparatus for the government units and offices, and there is no unified internal supervision apparatus in the governmental accounting office".

6. The European demands are in line with Abed al Juad Salah's criticism. The Europeans demand that all PA funds should be managed in the Palestinian Finance Ministry, under the supervision of the International Monetary Fund (IMF). In light of this demand, Arafat issued in January 2000 a Presidential decree ordering the unification of the PA Finance Ministry's accounts and transfer of the "Employees Directorate", responsible for the employment and salaries of PA personnel, to the Finance Ministry. In practice, some of the accounts were unified, others were managed separately and the "Employees Directorate" was not transferred to the Finance Ministry.

#### **Palestinian Authority - PLO - Fatah**

7. One of the main problems is that institutionalized Palestinian organizations were not disbanded when the PA was established, especially the PLO, the roof organization of the terrorist organizations, and Fatah, the "Palestinian Liberation Movement", Arafat's organization, the central movement within the PLO. Their personnel keep wearing two hats: they have become functionaries in the PA but at the same time they continue to run Fatah affairs in their new offices, while transferring PA funds to Fatah apparatuses. Arafat, needless to state, holds all three functions: Chairman of the PA, Chairman of the PLO and the Chairman of the Fatah. When monetary transfers from Arafat to Fatah terrorist apparatuses are uncovered, the Palestinians claim that these are internal Fatah transfers and deny the affiliation to the PA. In practice, under Arafat's triple-hat, PA funds, including money originating from the international aid are provided to the Fatah and other organizations engaging in terror within the PLO.

#### **The Salary Budget and Its Management**

8. At Europe's request, the IMF supervises the PA budget. According to its report correct for the beginning of 2002, the PA pays the salaries of 118,000 employees. In practice, it seems that the manpower scope is 130,000 (as appears also from the statements of a Palestinian element involved in the subject). For paying the salaries of its employees, the PA is managing a double reporting system. The PA claims to the aid entities that it requires about \$60 million dollar a month. However, from the captured documents it can be learned that the PA needs only 55%-65% of this sum. This, in light of a combination of a number of operating methods.

#### **Exchange Rate Differences**

9. The PA receives money from international aid elements in US dollars or in European currency. In practice, the PA pays the salaries in Israeli Shekels (NIS) at a very low exchange rate. The PA's exchange rate has not been amended in recent years, and as a result of an accumulative devaluation in the Israeli currency, the PA keeps the ever growing difference for other expenses.

For instance, the difference between the exchange rates was 10% in 1998 (3.5 shekels per dollar - the representative rate in Israel, vs. 3.2 shekels per dollar for the salary exchange rate). At the end of 2001, the difference was 19% (4.4 shekels per dollar - representative rate, vs. 3.7 shekels per dollar for the salary exchange rate).

10. The salaries paid to General Security personnel in December 2001 prove this. The remainder of the exchange can be deduced from the document regarding the payments to all General Security personnel.

According to other documents, in December 2001, "Scientific Committee

"Personnel" in West Bank branches were paid 183,601 NIS (\$49,622), an exchange rate of 3.7 shekels per dollar.

11. While the PA registers in its books, in our assessment, \$40.5 million for the payment of salaries, in practice it pays the salaries of its employees in shekels which is equal to \$34 million. Therefore, there is a surplus of \$7.7 million in the PA salary account (following the rise in the exchange rate in Israel from 4.4 shekels per dollar to 4.8 shekels per dollar, the surplus in the PA salary budget has grown).

#### **Deductions from the Salaries of PA Employees for Fatah Activists**

12. The PA exploits its budgets in other ways for providing money to the Fatah. According to documents captured by the IDF in Ramallah, the PA deducts a sum called "Fatah Membership Fee" from the salary of PA security personnel. This deduction is taken directly from the salaries of all security apparatus personnel and is not voluntary.

13. According to "Scientific Committee" salary documents, it can be seen that the deductions are proportional to the salary; starting from 50 NIS deducted from salaries of Brig. Generals down to 5 NIS from privates. From another document it can be learned that the scope of deductions from General Intelligence officers in the Ramallah and Jerusalem districts during March- April 2002 was 45,440 NIS.

14. In our assessment, the Palestinian security forces employ approx. 50,000 people. As the average salary is approx. 1,500 NIS a month and the deduction is 1.5-2%, Fatah receives approx. 1.1-1.4 million NIS per month, which is equivalent to \$260,000-345,000).

#### **Salaries Paid to Fatah Activists**

15. According to files belonging to the Organization and Administration Department in the General Security Apparatus, over 100 activists from the Fatah and other organizations operating in the framework of the PLO were included in the salary payment lists of the National Security Apparatus (the PA police forces), but were actually operating in Fatah/Tanzim local branches in the West Bank. This process, which took place in the second half of the 90s, was given additional legitimacy by the PA leadership in early 2001 and has remained in effect during the conflict with Israel. Scores of activists from other organizations, operating in the PLO framework, received salaries in a similar manner.

16. Fatah activists were also integrated in other security apparatuses such as the General Intelligence, with Arafat personally approving their employment with his signature. A file captured in the office of the Commander of the Special Forces (a PA security apparatus reestablished in 2001) shows that during Spring-Summer 2001, hundreds of additional activists from Fatah branches in the West Bank were integrated into the PA employee list. Similar transfers to this apparatus also took place in March 2002.

17. The implication is that the PA paid salaries to hundreds of Fatah personnel who engaged in terrorism. Amongst the salary earners in this status was the commander of the Al Aqsa Martyrs Brigades in Samaria (responsible for attacks in which 17 Israelis were killed), and the two murderers of the Israeli youth who was lured via the Internet to the Ramallah area where he was murdered.

18. The moves to integrate activists in the PA salary list are directed and managed by Arafat, wearing his triple-hat as Chairman of the PA, Chairman of the PLO and Chairman of the Fatah. His handwriting is on many documents regarding this subject, and the employment of Fatah activists in local branches is authorized by his signature.

19. It is estimated that 500-800 Fatah activists from the West Bank joined the PA apparatuses in recent years. Assuming that a similar number joined the apparatuses in the Gaza Strip, this would mean the integration of 1000-1600 Fatah members. If this number is multiplied by the average salary in the security forces (1,500 NIS a month), this means an injection of an additional \$345,000-552,000 (1.5-2.4 million NIS) each month from the security forces salary budget only to the Fatah.

20. Many more Fatah activists were integrated into PA civilian apparatuses with improved pay conditions. On the assumption that between approx. 1,000- 1,600 activists joined the civilian apparatuses with an average salary of \$300, the salaries paid to Fatah activists are between \$640,000 and \$1 million, which assist to finance the Fatah

infrastructure.

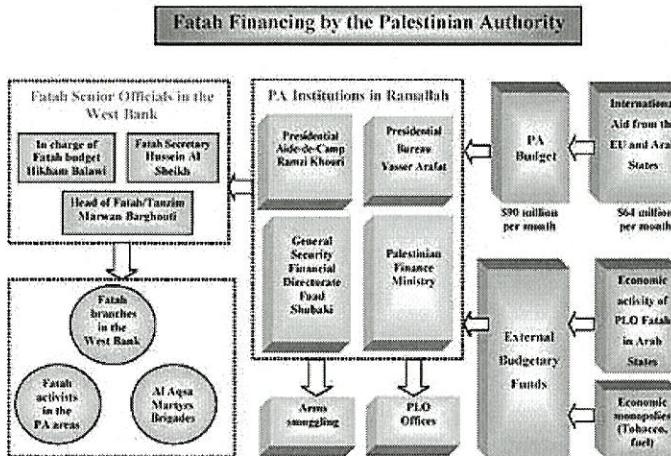
### **Budget Reserves for Financing Other Activities**

21. The PA budget in 2000 was significantly larger than the 1999 budget. The 2001 budget was 16% larger than the 2000 budget. The budget of the Employees Directorate, responsible for paying the salaries, grew by 250% since 1999, and its budget was increased considerably during the confrontation with Israel. As mentioned above, the international aid elements finance a major part of the PA's current budget. Displaying an inflated budget to the international aid bodies enables the PA to have a large reserve budget for other activities. The inflated budget of Arafat's bureau is a classic example: it was doubled in 2001 compared to 2000 and is now \$40 million a year (4% of the total PA budget). And indeed, money for Fatah elements and other organizations is transferred directly from Arafat's bureau after being personally authorized by Arafat.

## How is the Money Transferred?

22. Money transfer from the PA to the Fatah is carried out through several channels: from the Palestinian Finance Ministry and funds external to the budget. It is noted that the Palestinian Finance Ministry is supposed to handle the PA budget. Other PLO financial sources, such as the "Palestinian National Fund" are managed in a separate fund by different officials. Hence, money transfers from the Palestinian Finance Ministry to Fatah activists and other PLO organizations originate from the PA budget and the international aid.

23. Beyond the flow of money from the official PA salary budget, large sums of money are transferred to the various Fatah branches.



## Money Transfers to Fatah Branches

24. One of the document files captured in Ramallah details a systematic process of transferring money from the PA salary account to Fatah branches. There were 70 such money transfers in 1998-99. The characteristics of this process are as follows:

- a. Fatah district branches received payments of between 15,000-18,000 NIS and district sub-branches received between 3,000-10,000 NIS. About 40 such branches received funding from the PA budget.
- b. Fatah Branches in refugee camps received payments of between 12,000- 19,500 NIS.
- c. "Shabiba" (Fatah youth movement) branches as well as Fatah student committees in the various West Bank colleges were financed by the salary account.
- d. The financing is periodical - 7 Fatah branches received by this method, 2-4 checks, some of which were cleared on the same day.
- e. In total, in 70 money transfers, approx. 440,000 NIS (\$107,000) was transferred (the exchange rate in 1999 was 4.1 NIS to the dollar).

25. The documentation shows that there were check books of the PA's monthly salary account in the office of Marwan Barghouti, the head of Fatah's "Supreme Movement Committee" in the West Bank, and Barghouti or his aide-de-camp withdrew money in an authorized and systematic

manner in order to finance Fatah branches in the West Bank.

26. The PA salary account is designed to pay the salaries of the security forces personnel and civilian employees in the PA. It is meant to be transparent to the international aid elements and the IMF. In 1998-99, the international aid elements did not finance the PA's current budget, but this cannot reduce the severity of this activity, in which the PA financed dozens of Fatah branches in order to establish a broad infrastructure of field activists who in time became armed local militias. This was a calculated move, which took place many years before the confrontation with Israel.

27. Some Palestinians with the power of attorney to draw checks became terror perpetrators in the conflict with Israel. For example, Jihad Mahmud Tumali, a senior Fatah/Tanzim activist in the Al Amari refugee camp in the Ramallah area and Lawrence Suleiman Makhhal from another Fatah local branch in the Ramallah area, carried out shooting attacks while receiving financial aid both from the Fatah and from the General Intelligence. Abed Al Bassat Rabhi Shu'abka, Fatah/Tanzim secretary in El Bireh, is on the list of activists from mid-2001, which Arafat approves the payment of \$500 to each one due to their activities in the confrontation with Israel. Marwan Barghouti, who provided the checks, was head of the Fatah/Tanzim in the West Bank and directed the murderous attacks of the Al Aqsa Martyrs Brigades. He was arrested by Israel in April 2002.

28. It is reasonable to assume that during the confrontation with Israel, changes were made in the characteristics of the allocation of money from the PA to the Fatah. We estimate that the aid to Fatah field branches was institutionalized during 2001. From the protocols of the Fatah branch in Nablus, it can be learned that the official (apparently monthly) budget in 2001 was 49,000 NIS (\$12,000). Arafat had authorised in November 2001 the branch in Jenin to cover debts of \$6,000.

29. Later on, money allocations were added to the budgetary aid to Fatah branches which were given by Arafat in dollars to Fatah activists involved in terror and were transferred through Fatah district branches.

30. From analysis of 15 payment orders carried out during 10 months (April 2001 - February 2002), the characteristics of the process can be learned:

a. This was a series of money transfers carried out from the PA Finance Ministry, most of them to Fatah district branch activists in the West Bank, and only a small number to activists from other bodies such as Fatah student committees in a district sub-branch.

b. Most transfers were to Fatah/Tanzim activists involved in the confrontation with Israel and a small number were to families of activists under arrest and killed.

c. It is standard for requests to be made for payment of \$2,000-3,000 per activist. Arafat authorizes a sum of between \$300-800.

d. In each branch, 14 activists on average receive aid of approx. \$440. Terrorist squad leaders receive a higher sum - \$600. Occasionally, Arafat approves a sum of \$800 per activist.

e. These are periodical payments to activists. From a number of branches, requests for payment are made in intervals of weeks to a few months, and they are authorized by Arafat.

f. Activists in district branches in Samaria (Jenin, Tubas, Tulkarm) received between \$2,000-6,000 in each allocation. The Ramallah and El Bireh branch, the main power center of the Fatah/Tanzim in Judea received between \$5,000-10,000 in each allocation.

g. District branch activists received an accumulating sum of between \$12,000-22,000 over the ten month period.

31. In the period between the end of November 2001 and beginning of February 2002, when there was an escalation in the conflict with Israel, Arafat approved between \$50,000-70,000 to activists in Fatah branches in the West Bank. The 16 payment orders found add up to approx. \$100,000. They reflect only part of the overall picture, since there are 20 Fatah district branches: 13 in the West Bank and 7 in the Gaza Strip.

32. From the orders uncovered, it can be deduced that the allocations to branch activists in this format is between \$290,000-530,000. These are direct payments to Fatah/Tanzim activists involved in terrorism. This in addition to the periodical financing of Fatah branches and the provision of

means such as arms and fuel to local militias.

#### **The PA officials involved in the process**

33. The transfer of money from the PA to the Fatah is directed by Yasser Arafat who is involved in most of the smallest details daily. In addition, a number of PA officials are also responsible for this activity. One is Hikham Balawi, a personal associate of Arafat. He is the secretary of the PA Supreme National Security Council, and one of the senior officials in charge of the Fatah/Tanzim in the West Bank - hence also of its budget in this area.

Another associate of Arafat engaged in money transfer to the Fatah is the PA's main financier, Fuad Shubaki. Documents captured by the IDF demonstrate his connection to the Al Aqsa Martyrs Brigades - Fatah's military wing. Shubaki was asked to allocate money to these elements for perpetration of terrorist attacks such as preparing explosive charges and arms production. Shubaki was also asked to finance the construction of a workshop for producing heavy weapons, apparently rockets and mortars.

34. The allocation of funds to Fatah field activists are personally authorized by Arafat, after he is approached by Fatah senior activists in the West Bank such as Hussein al Sheikh and Marwan Barghouti, head of the Fatah/Tanzim.

Through them, the aid is provided to the terrorist squads operating in the West Bank. These squads operate under the title of the "Al Aqsa Martyrs Brigades", and their organizational affiliation to the Fatah is a proven fact.

#### **PA External Budgetary Sources**

35. Financial sources external to the budget are created from money accumulated from various PA activities such as fuel and tobacco imports to the PA. The import of these products is handled as economic monopolies, which are in the hands of senior PA officials. The Deputy Chairman of the PA Legislative Council (Nahaj Munir Alris), who listed the PA's weaknesses in an interview to an Arab newspaper (Al Hayat Al Jadidah, 26 November 2001), placed the economic monopolies and the corruption phenomena at the head of the list. The revenue from the heavy taxation of the fuel and tobacco imports is diverted to funds not included in the PA budget, from which activities not listed in the official budget can be financed. It is not surprising that Arafat personally controls this money. The European elements rightfully demanded that the monopoly revenues should be part of the accounts managed by the Palestinian Finance Ministry.

36. The surpluses from the PA budgets and the external budget funds enable the PA to maintain additional PLO apparatuses that were not disbanded after the PA was established. One of these is the array of PLO/Fatah representations around the world. PLO veterans employed in these representations and enjoying diplomatic immunity, intensively aid in arms procurement operations and smuggling to the West Bank and Gaza Strip.

#### **How Much Money is Directed to Terrorist Elements?**

37. It is hard to give a clear quantitative answer to the question of how much money is diverted from the PA budgets to terrorist groups. However, the activities described above generates millions of dollars a month in surpluses outside the official PA budget, as described in the table on the following page. We estimate that Fatah elements are allocated \$5-\$10 million per month from the PA for its expenses in the confrontation against Israel. Some of this sum is in money and some in goods - fuel and arms. It can be estimated that PLO apparatuses in the Middle East and worldwide are allocated millions of dollars more each month.

38. Obviously there is no way of proving that all the money saved from the official salary budget is transferred directly to Fatah elements and additional terrorist organizations. The claim is that within the PA budget, activities take place that are typical of a "money laundry".

Table 1: Sources from the PA Salary Budget that could be diverted to other activities

	<b>Monthly Sum</b>	<b>Calculation Base</b>
Differences in exchange rate in salary payment	\$7.7 million	\$40.5 million, 19% difference in exchange rate

Deductions from salaries of security personnel for Fatah's budget	\$260,000 - \$345,000	50,000 security personnel, average monthly salary \$345, 1.5-2% deduction
Payment of salaries to Fatah personnel on the PA payroll	\$640,000 - \$1,000,000	2,000-3,200 Fatah personnel
Financing of Fatah branches	\$140,000 - \$220,000	\$3,400-4,100 per district branch, 20 branches. \$680- 1,360 per sub-branch, 100 branches
<b>Total sources from the salary budget that can be diverted to the Fatah and other terrorist organizations</b>	<b>\$8.74-\$9.27 million</b>	<b>14% of the scope of the international aid to the PA budget (\$64 million per month)</b>

*Note: The official representative exchange rate in Israel at the end of December 2001 was 4.4 shekels per dollar.*

39. As unveiled in the captured documents, the main methods which enabled the creation of surpluses in the PA salary account (differences in the exchange rate, deductions to the Fatah, and the integration of Fatah personnel in the PA salary payroll) continued at the end of 2001 and in early 2002. In our assessment, the PA continued to finance Fatah branches during these years.

The direct payments to Fatah/Tanzim activists were in addition to these methods, and in accordance to the scope of attacks carried out by Fatah/Tanzim in the confrontation with Israel.

40. A clear example of the financial aid to these militias is found in the example of cooperation between PA elements and the Al Aqsa Martyrs Brigades (Fatah/Tanzim activists) in the Tulkarm area: financing of procurement of M- 16 rifles, direct payments to terrorist squad activists, with Arafat's personal involvement, and recommendations to continue to assist them with funds and logistic means (through the PA official security apparatuses such as the General Intelligence.

41. The main source for paying PA salaries in 2001-2002 is the international aid money. Assuming that surpluses of \$9 million per month are accumulated from the salaries section of the budget, it can be stated that 14% of the international aid is channeled to other objectives than those originally intended. It is reasonable to assume that a significant part of the revenue accumulated from the exchange rate differences is not directed to humanitarian goals, and some of the money is transferred directly to the Fatah.

42. The documents described in this report, and other documents published during April 2002, clearly show the connection between the PA financing of the Fatah/Tanzim and the terrorist attacks against Israeli civilians and the suicide attacks carried out by these local militias inside Israel.

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